



THE ROLE OF SPECIAL ECONOMIC ZONES IN IMPROVING EFFECTIVENESS OF GREATER MEKONG SUBREGION ECONOMIC CORRIDORS

NOVEMBER 2018



ADB

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On the front cover:

Leftmost and middle photos show activities at the border check point near the Mekong River on the side of the Lao People’s Democratic Republic (photo by Gerhard Joren/ADB).

Rightmost photo shows Meas Sophal who works in a garment factory at the special economic zone in Sihanoukville, Cambodia (photo by Pring Samrang/ADB).

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ABBREVIATIONS

ACMECS	-	Ayeyarwady–Chao Phraya–Mekong Economic Cooperation Strategy
ADB	-	Asian Development Bank
AH	-	Asian Highway
ASEAN	-	Association of Southeast Asian Nations
BCP	-	border crossing point
FDI	-	foreign direct investment
GMS	-	Greater Mekong Subregion
GVC	-	global value chain
ha	-	hectare
km	-	kilometer
km ²	-	square kilometer
Lao PDR	-	Lao People’s Democratic Republic
PRC	-	People’s Republic of China
SEZ	-	special economic zone
VAT	-	value-added tax

EXECUTIVE SUMMARY

Governments in the Greater Mekong Subregion (GMS) are interested in building special economic zones (SEZs) as an impetus to stimulate economic activity along GMS economic corridors and especially in the border areas. A proposal for a study on the role of SEZs in strengthening competitiveness of GMS economic corridors was endorsed at the February 2016 GMS Senior Officials Meeting. The aim of this report is to analyze factors behind the success or failure of SEZs within GMS corridors, as well as to provide indications of the potential role of SEZs in future GMS economic corridor development.

The paper first reviews the global literature on SEZs and the history of SEZs in the GMS, with emphasis on particular features of border SEZs when two bordering countries have differing sources of comparative advantage. It also contains an in-depth analysis of Mae Sot, part of the Tak SEZ in Thailand close to the Myanmar border, utilizing a customized survey of 100 firms. Further empirical evidence is provided on the effectiveness of SEZs based on the extensive literature about and ADB site visits to SEZs in Savannakhet Province in the Lao People's Democratic Republic (Lao PDR) and a bespoke client survey by ANZ Bank of firms in Cambodia, the Lao PDR, Myanmar, Thailand, and Viet Nam.

The paper brings together the wider literature and the GMS evidence to assess the arguments and modalities for harnessing SEZs for border development. The report concludes with policy recommendations for GMS ministers on whether and how SEZs generally, as well as specifically at the borders, can build up competitiveness of economic corridors and promote economic development.

I. INTRODUCTION

A special economic zone (SEZ) conjures up many images, from a bonded warehouse district in a port to the fishing village of Shenzhen in the People's Republic of China (PRC) that became a metropolis of 14 million people. The International Labour Organization's database grew from 176 SEZs in 47 countries in 1986 to 3,500 SEZs in 130 countries 20 years later. Surveying the phenomenon, Farole and Akinci (2011, 3) provide a broad definition of SEZs as:

demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.

SEZs have generated a large literature, much of which is inconclusive because there are many varieties of economic zones that have been called "special."

However, the wealth of accumulated case studies does offer some patterns. The initial emphasis on export promotion zones that operated as enclaves with little potential for dynamic growth has been largely displaced by a model in which the SEZ has physical, strategic, and financial links to the local economy. This development can be related to the growth of global value chains (GVCs), especially in East Asia, over the last 30–40 years. Multiuse development has often replaced the earlier narrow focus on manufacturing, with information and communication services playing a key role. The success of SEZs appears to be related to the infrastructure they provide (transport, reliable power supply, etc.) and streamlining of regulations, rather than to the tax and other financial incentives used to promote early SEZs. Finally, increasing numbers of SEZs are private, although some state-financed SEZs continue to be successful.

Abonyi, Zola, and Suwannakarn (2014, 13) provide a similar list of characteristics of successful Asian SEZs, although they advocate public–private partnerships rather than dwelling on the choice between public or private (2014, 21). They also assign a major role to the government in identifying the activities on which an SEZ should focus. While it is clear that many successful SEZs do concentrate on clusters (e.g., in Thailand the eastern seaboard has an automotive focus, while Ayutthaya has an electronics focus), it is debatable whether that should be the result of top–down planning decisions or bottom–up emergence of natural clusters. Abonyi, Zola, and Suwannakarn (2014, 11–13) also developed a taxonomy of SEZs, distinguishing more informal border economic zones and cooperative cross-border SEZs from standard SEZs, although this risks identifying each special zone as different and obscuring the common features of successful SEZs. Abonyi, Zola, and Suwannakarn (2014) identified these as improved business environment through streamlined legal and regulatory framework, more efficient operational environment through provision of infrastructure and other services, and effective trade facilitation. In sum, successful SEZs use their “specialness” to create globally competitive economic activities, and, although there will be location-specific modalities, this essentially involves the familiar development mix of good infrastructure and cutting unnecessary red tape.¹

Within the huge range of outcomes, SEZs have been most strikingly successful under what might appear to be adverse conditions. In countries with imperfect economic structures and a reluctance to change, SEZs can be used as experimental centers for testing and fine-tuning economic reforms before applying them to the wider economy. The PRC is the classic case of this strategy. Auty (2011, 207–226) champions the concept of early reform zones to capture this type of SEZ,² and, although Auty’s applications are to African countries, the concept is relevant to the poorer countries in the Greater Mekong Subregion (GMS).³ He emphasizes the possibility of showcasing the benefits from world-class infrastructure, business-friendly services, property rights, and the rule of law in countries where rent-seeking and coordination failures inhibit these changes at the national level. Apart from the infrastructure and institutional benefits, an early reform zone “can attract FDI [foreign direct investment] and incubate dynamic internationally competitive firms that eventually will challenge established monopolies in the unreformed sector.” In their introduction, Farole and Akinci (2011, 9) make the important point that successful SEZs have often required an incubation period, and “the biggest SEZ success stories like PRC and Malaysia ... took at least 5 to 10 years before they began to build momentum.”

The case for early reform zones is similar to the argument for economic corridors as routes through regions with high costs of international trade along which the benefits of good hard and soft infrastructure are highlighted. The high trade costs may reflect poor-quality roads, but a frequent outcome is that, after substantial investment in road improvements, trade still does not flourish due to poor soft infrastructure, such as lengthy border delays, frequent stops by traffic police

¹ Further reviews of the SEZ literature, assessments of the Asian experience, and case studies can be found in Rimmer and Dick (2010); Carter and Harding (2011); Bhattacharyay, Kawai, and Nag (2012); and ADB (2015, 63–134).

² Auty (2011) cites the PRC, Malaysia, and Mauritius as providing examples of SEZs eventually leading to change in distorted economies. An important element in Shenzhen’s success was its contiguity with Hong Kong, China, which mattered not just for ease of trade and investment but also for Chinese producers to observe the secrets of Hong Kong, China’s success, i.e., learning by seeing. Similar arguments could apply to poorer GMS countries’ SEZs located on the borders of Thailand and the PRC.

³ The Greater Mekong Subregion is a natural economic area bound together by the Mekong River, which encompasses six countries, namely, Cambodia, the PRC (specifically, Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam.

and other agents demanding payment, or other impediments to efficient trade.⁴ The similarity suggests that SEZs along an economic corridor may be doubly beneficial: by encouraging dynamic firms in locations where they may be internationally competitive and can participate in GVCs where low trade costs are essential, and by providing an example to policy reformers and would-be entrepreneurs of what can happen outside the straitjacket of the unreformed economy.

Finally, even in well-functioning economies or when economic structures are advancing to higher levels, SEZs may help to reduce regional inequalities. In Thailand and Viet Nam, SEZs are one tool to offset the concentration of population and economic activity in the megacities of Bangkok and Ho Chi Minh City, respectively. In the PRC, SEZs have been an explicit instrument to help stimulate backward regions, and this motivates the increase in SEZs in the mountainous part of Guangxi Zhuang Autonomous Region near the Viet Nam border and the border provinces between Myanmar and Thailand and between the Lao People's Democratic Republic (Lao PDR) and Thailand.

⁴ This is the tragedy of the anti-commons where too many people have a claim to the rents (the gains from trade in this example), with the consequence that there is too little of the desired activity. The label is based on a contrast to the tragedy of the commons, where nobody has legal control over the rents and too much of an activity, e.g., overgrazing of common land or overfishing in the deep sea, occurs.

II. HISTORY OF SPECIAL ECONOMIC ZONES IN THE GREATER MEKONG SUBREGION

SEZs have a long history in some GMS member countries. An early stage in the PRC’s “open door” policy saw the creation of four SEZs in coastal cities in 1980, and since then hundreds of special zones with a variety of titles have been established.

Viet Nam has also been active in creating special zones, and in 2014 reported having a total of 27 border economic zones (ADB 2014, 9), although Aggarwal (2011) and others have observed that some SEZs are inactive.⁵ By 2015, all GMS countries had embraced SEZs in principle, although it is not always clear how successfully they have been implemented.

Table 1 summarizes the types of SEZs and their linkages to domestic economies.

Table 1: Types of Special Economic Zones in Greater Mekong Subregion Member Countries

Total number		Private (%)	Public (%)	By Linkage to Domestic Economy		
				Enclaves	GVC Links	Border
Cambodia	14 ^a	100	0	✓	na	✓
Lao PDR	2	na	na	na	na	na
Myanmar	3 ^a	na	na	✓	na	✓
PRC	1,515 ^a	12	88	✓	✓	✓
Thailand	110	84	16	✓	✓	✓
Viet Nam	411	89	11	✓	✓	✓

^a = Includes public–private partnerships.

na = not available in the source, GVC = global value chain, PRC = People’s Republic of China.

Note: PRC includes all of the PRC, not just the Greater Mekong Subregion.

Source: Asian Development Bank (2015, 71).

⁵ ADB (2015, 89) points to Vietnamese SEZs’ success in attracting foreign investment, with 49% of foreign direct investment located in SEZs in 2014.

In contrast to the longer experience of the PRC and Viet Nam with SEZs, Cambodia, the Lao PDR, and Myanmar only embraced the concept in the 21st century, and Thailand started to promote border SEZs in 2015. The history of SEZs in these latter four GMS countries is described in the next four subsections: Cambodia introduced legislation for SEZ promotion in 2005 (section II.A); the Lao PDR also introduced SEZ legislation in the early 2000s, but implementation has been slower and more uneven than in Cambodia (section II.B); Thailand has successful industrial zones within 100–150 kilometers (km) of Bangkok, e.g., along the eastern seaboard and at Ayutthaya, but only began promoting border SEZs in 2015 (section II.C); and Myanmar has established SEZs, but it is difficult to follow their progress systematically (section II.D). Section II.E describes the situation with respect to SEZs along GMS corridors. The section concludes by noting some issues related to evaluating the success of SEZs.

A. Special Economic Zones in Cambodia

Cambodia established the legal framework for SEZs with a 2005 decree.⁶ By 2014, 9 SEZs were operating and 20 more had been authorized. Of the nine operational SEZs, three were at Sihanoukville Port (in the GMS Southern Economic Corridor but not at a border); three at Bavet (in the GMS Southern Economic Corridor at the Viet Nam border); and one each in Phnom Penh, Poipet, and Koh Kong (the latter two in the GMS Southern Economic Corridor at the Thai border). In 2014, 67,889 workers, overwhelmingly young women, were employed in the nine SEZs. They differ greatly in size, with 439 factories in the Phnom Penh, Bavet, and Sihanoukville SEZs, but only two in the Poipet O'Neang SEZ and four in Koh Kong. Employment in the two SEZs on the Thai border was 415 workers at Poipet and 988 workers at Koh Kong.

The SEZs are primarily export-processing zones, where firms import almost all their intermediate inputs and sell almost none of their output on the domestic market. This helps to explain the preference for locations near Sihanoukville Port or in the segment of the GMS Southern Economic Corridor from Phnom Penh to Vung Tau deep-sea port. In this context, the Poipet and Koh Kong SEZs are of less interest to producers.

The SEZs are privately owned and managed: the operator is required to have at least 50 hectares (ha) of land and is responsible for roads, electricity, and water supply. The state provides a one-stop service with representatives of all relevant government agencies on site, for which the zone operator pays a fee. Firms locating in an SEZ must first obtain approval; this requires a minimum \$500,000 investment in fixed assets, which means that almost all firms in SEZs are foreign owned. Their privileges include guarantees of no price or foreign exchange controls, free remittance of foreign currency, exemption from import duty and value-added tax (VAT), a 20% corporate tax rate, and tax holidays of 9 years for the zone developer and of variable length for other firms. However, these privileges are not necessarily exclusive to firms in SEZs, as firms outside the zones are entitled to apply for the privileges.

In Cambodia, SEZs play a role as enclaves that provide a stable business environment, reasonable infrastructure and public utilities, and less red tape, rather than places where producers respond to tax or other financial incentives. However, implementation is not always as promised. Warr and Menon (2015, 10–11) report complaints from SEZ-based firms that the one-stop service

⁶ A review of the policy was presented at the Seventh GMS Economic Corridors Forum in Kunming, PRC, on 11 June 2015. This subsection is primarily based on the published version of that report (Warr and Menon 2015). In 2015, three more SEZs opened at Kandal (near Phnom Penh), Sihanoukville, and Kampot (near Sihanoukville), and employment in SEZs increased.

is not one-stop and electricity supply can be unreliable. More recent evidence (e.g., from the firm survey in section IV.B) suggests less dissatisfaction with one-stop services, but ongoing dissatisfaction with infrastructure.⁷ Implementation is also an issue with respect to tax privileges, e.g., reimbursement of VAT can take a long time (as of June 2016, only one investor had successfully managed to get a VAT reimbursement from the government).

The Cambodian experience illustrates the specificity of SEZs: in this case, they are little more than export-processing zones. The SEZs have been successful in providing jobs that would otherwise probably not exist, but there are virtually no linkages to the domestic economy or opportunities for skill upgrading. Although the SEZs are located along GMS corridors, they are not intended to promote border areas or facilitate trade across borders. The more successful SEZs are simply at points convenient to the nearest deep-sea ports, while border SEZs on GMS corridors (Poipet and Koh Kong) have lagged.

B. Special Economic Zones in the Lao People's Democratic Republic

In the Lao PDR, the first SEZ decrees date back to 2002–2003.⁸ However, systematic SEZ legislation lagged behind Cambodia, with the first national steps not taken until 2009–2011. There is uncertainty about how many SEZs exist: although there are more than the two shown in Table 1, only the Savannakhet and Golden Triangle SEZs appear to be active.⁹

The Savan–Seno SEZ was established in 2002–2003, but there was little activity until after the Second Thai–Lao Friendship Bridge opened in early 2007. The bridge is a key link in the GMS East–West Economic Corridor; and substantially improved connectivity between Savannakhet, the second city of the Lao PDR, and Thailand. For several years after the bridge was opened, activity in the SEZ was largely restricted to a hotel and casino complex. In 2008, a Malaysian company signed an agreement to develop Savan Park as a manufacturing-based SEZ, but development of the infrastructure necessary to attract investors to the park took several years. By March 2016, the Savan–Seno SEZ had 47 licensed investors and appeared to be flourishing.¹⁰ Its experience is analyzed in section IV.A.

National legislation for SEZs appears in Chapter 5, Special Economic Zones and Specific Economic Zones, of the 2009 Law on Investment Promotion. Additional clarification is contained in subsequent regulations and decrees, in particular the October 2010 national SEZ decree that led to the establishment in December 2010 of the National Committee for Special Economic Zones in the Prime Minister's Office; the committee has since been transferred to the Ministry of Planning and Investment. The Asian Development Bank (ADB) provided support in a 2007

⁷ A major concern for the firms surveyed in section IV.B is transparency of government agencies. One-stop services do their job, but firms are dissatisfied with the transparency of some approvals and transactions.

⁸ Prime Minister Decree 177 was designed to regulate planning, management, and promotion for both domestic and foreign investments in the SEZs. Prime Minister Decree 148 empowered SEZs to enter into joint-venture arrangements with third parties to develop the zones.

⁹ The *Vientiane Times* (6 October 2015) reported that the Lao PDR currently had 11 special zones, including the That Luang Marsh SEZ in Vientiane, Savan–Seno SEZ in Savannakhet, Golden Triangle SEZ in Bokeo, Boten Dankham SEZ in Luang Namtha, Vientiane Long Thanh Golf Course in Vientiane, Phoukhiew SEZ in Khammuan, and Pakxe–Japan SEZ in Champassak.

¹⁰ Twelve of the licensed investors were domestic and three were joint ventures between Lao and foreign partners. The foreign investors were from many countries, including eight from Thailand, seven from the European Union, five from Malaysia, and five from Japan.

technical assistance project that was implemented in 2009–2011, with the aim of encouraging and strengthening local capacities and the country's overall SEZ regulatory environment.

In an evaluation of the SEZ program and ADB technical support, Lord (2012) gave a lukewarm assessment. He focused almost exclusively on the Savan–Seno SEZ and made negative references to the economic and social consequences of casinos, which could also apply to the Golden Triangle SEZ. However, a few years later, it is clear that the Savan–Seno SEZ is diversifying beyond the casino, which may have even been a positive initial catalyst. This progress is assessed in section IV.A.

C. Special Economic Zones in Myanmar

The legal framework for SEZs in Myanmar is the Myanmar Special Economic Zone Law of 2014.¹¹ The focus has been on Dawei, Thilawa, and Kyaukpyu SEZs, which are all coastal locations, with reference also to potential border economic zones at Kokant Marlipar (at Laukkaing near the PRC border) and Myawaddy (near the Thai border). Management committees were established for Dawei and Thilawa in September 2013 and for Kyaukpyu in January 2014. Expressions of interest were received from Nippon Koei for Thilawa SEZ and Creative Professional Group for Kyaukpyu SEZ.

Dawei is the western terminus of the GMS Southern Economic Corridor, and a deep-sea port would provide access to the Indian Ocean for traders in Bangkok or farther east. In 2008, Thailand and Myanmar signed a memorandum of understanding to develop Dawei, and Italian–Thai Development was granted a 75-year concession to construct the zone. The company failed to attract sufficient investment and, in 2013 was stripped of its lead-role position. In January 2015, Japan agreed to participate in equal partnership with Thailand and Myanmar in the Dawei Special Economic Zone Development Company and, on the same day, Rojana Industrial Park and Italian–Thai Development announced an agreement to develop the initial phase of the project at an estimated cost of \$1.7 billion.¹² Apart from its financial and organizational problems, Dawei SEZ has faced significant opposition from local populations, who allege land seizures, forced evictions, insufficient compensation for confiscated farmland, and denial of their right to sufficient food and adequate housing. There is also fear that pollution from the industrial complex will cause health problems.

The other two SEZs, Thilawa and Kyaukpyu, are not on GMS corridors. Thilawa SEZ is located 18 km from downtown Yangon. The opening ceremony for the first phase, covering a 400 ha area, was held in November 2013. This phase will focus on high-tech infrastructure and export industrial projects. A Suzuki motor vehicle factory is now operational. Phase B covering 2,000 ha will include construction projects and drain projects. Since 2014, management has been by the Myanmar Japan Thilawa Development Limited joint venture. The Kyaukpyu SEZ in Rakhine Province is progressing more slowly, with tender processes for the developer began in November 2014.

¹¹ This followed the January 2011 Dawei Special Economic Zone Law and a general law passed in 2011.

¹² The initial phase is to cover 27 km² of the 196 km² SEZ. A 160 km road to the Thailand–Myanmar border will be built, with a budget of \$119 million and, during the first phase of construction a small port, a reservoir, a telecom network, and other basic infrastructure projects are to be completed within 5 years.

D. Special Economic Zones in Border Provinces in Thailand

In 2015, Thailand commenced the establishment of SEZs in 10 border provinces.¹³ The aim is to build production bases connecting with those of Association of Southeast Asian Nations (ASEAN) neighbors and promote the development of Thailand's provinces along border areas. The SEZs are defined by province rather than by border crossing point (BCP). The designated areas are large, with a total of 2,932 square kilometers (km²) for the 10 SEZs. The first-phase SEZs consist of Tak (1,419 km²), Mukdahan (578.5 km²), Sa Kaeo (332 km²), Trat (50.2 km²), and Songkhla (552.3 km²); and the second-phase SEZs are Nong Khai (473.7 km²), Narathiwat (235.2 km²), Chiang Rai (1,523.6 km²), Nakhon Pathom (794.8 km²), and Kanchanaburi (552.3 km²). Songkhla and Narathiwat border Malaysia, and are not covered in this report.

Thailand's Board of Investment has announced a number of investment and financial incentives for activities established in the SEZs. These include tax holidays and other corporate and personal income tax benefits, VAT exemptions, and exemption from import duties on machinery and other specified inputs. Investors are also promised one-stop services to speed the approval of investment applications (to 40 days) and work permits for foreign workers (to 1 day). Permission for foreign workers to commute to the SEZs and provision of skills training are also part of the promised package.

The program is at an early stage, although the Government of Thailand has already committed B7,362 million for investment in infrastructure and customs checkpoints in 2015–2016. The program clearly indicates a desire to develop border regions of the country: there are frequent references to the ASEAN Economic Community coming into effect at the end of 2015 and to neighboring countries. The formal arrangements for using migrant labor are an incentive to locate activities in Thailand's border regions, but there is little sign of cooperation with the neighboring countries beyond encouraging use of their lower-cost labor in the SEZs.

In sum, Thailand's border SEZs are intended to promote regional economic development in border provinces and are much larger than the type of border SEZs covered in this report. However, there is considerable overlap, as all four of the first-phase SEZs bordering GMS countries include areas adjacent to BCPs on GMS corridors. Mae Sot, which occupies only a part of one subdistrict in the 14-subdistrict Tak SEZ, has a several-decades-long history of Thailand–Myanmar cross-border production. As one of the most important points for strengthening competitiveness on a GMS corridor, it has been selected for the most thorough survey-based analysis in section III. Similarly, the area adjacent to the Mueang Mukdahan BCP is only one of the 11 subdistricts in the Mukdahan SEZ, but it is the Thailand counterpart to the Lao PDR's Savan–Seno SEZ (section IV.A). The Sa Kaeo SEZ that includes Aranyaprathet BCP is smaller, but still much larger than the immediate border area; both Aranyaprathet and Trat lie on GMS corridors and have counterpart SEZs across the border with Cambodia.¹⁴

¹³ This subsection is based on *A Guide to Investments in the Special Economic Development Zones*, published online by the Board of Investment in August 2015, http://www.boi.go.th/upload/content/BOI-book%202015_20150818_95385.pdf and *Thailand's Special Economic Zones*, published online by the National Committee on Special Economic Zone Development in January 2016. file:///C:/Users/User/Downloads/Thailand's_Special_Economic_Zones_-_New_Opportunity_Arises.pdf.

¹⁴ Although Thailand's official documentation refers to the proximity of Tak to the Myawaddy Industrial Zone, of Mukdahan to Savan–Seno SEZ, of Sa Kaeo to Poipet SEZ, of Trat to Koh Kong SEZ, of Nong Khai to Vientiane SEZs, and of Chiang Rai to The Lao PDR's Golden Triangle SEZ, there is little evidence of planning cooperation with the cross-border counterpart.

E. Special Economic Zones in Greater Mekong Subregion Corridors

The GMS economic corridor strategy focuses on nine corridors (Map 1): North–South, Northern, Northeastern, Central, East–West, Eastern, Western, Southern, and Southern Coastal.¹⁵ Borders are often the weak link in a corridor, as they involve an abrupt change in governance, culture, language, ethnicity, and other things that may take traders outside their comfort zone, not to mention the administrative issues associated with passing through immigration, customs, quarantine, and other bureaucratic hurdles at the BCP. Table 2 lists the SEZs that have been established at GMS BCPs, and the following discussion focuses on border SEZs that are in GMS corridors.¹⁶

It is difficult to assess the relative importance of existing border SEZs, although traffic data indicate that use of BCPs varies greatly.¹⁷ Thai traffic data (Table 3) indicate that, between Thailand and Cambodia, the Southern Coastal Corridor (Hat Lek–Cham Yeam BCP) is less used than the Southern Economic Corridor (Aranyaprathet–Poipet BCP). Traffic along the East–West Economic Corridor is light at the Viet Nam–Lao PDR BCP (Lao Bao–Dansavanh), but farther west along the East–West Economic Corridor the Thailand–Myanmar BCP (Mae Sot–Myawaddy) is one of the busiest in the GMS. Such data raise operational issues of whether border SEZs should target busy areas or will do more good where traffic is currently light, and whether we should think of corridors holistically or as a series of segments that are connected but distinct.

Table 2: Border Special Economic Zones on Greater Mekong Subregion Economic Corridors

Corridor	Border Special Economic Zones	
North–South Economic Corridor	Mohan (PRC)	Boten (Lao PDR)
	Thonpeung (Lao PDR)	Golden Triangle (Myanmar)
	Riuli (PRC)	Muse (Myanmar)
	Pingxiang (PRC)	Dong Dang/Lang Son (Viet Nam)
	Hekou (PRC)	Lao Cai (Viet Nam)
	Mong Cai (Viet Nam)	Fangchengang (PRC)
East–West Economic Corridor	Myawaddy (Myanmar)	Mae Sot (Thailand)
	Lao Bao (Viet Nam)	Dansavanh (Lao PDR)
Southern Economic Corridor	Savan–Seno (Lao PDR)	Mukdahan (Thailand)
	Bavet (Cambodia)	Moc Bai (Viet Nam)
	Poipet (Cambodia)	Aranyaprathet (Thailand)
	Koh Kong (Cambodia)	Trat/Souy Cheng (Thailand)

continued on next page

¹⁵ Corridor configurations have evolved since the 1990s, and Map 1 reflects the proposed changes to the current GMS economic corridors. In June 2016, the GMS Secretariat circulated the Draft Review of Configuration of GMS Economic Corridors for consideration by members.

¹⁶ Myanmar upgraded Myawaddy and Tachileik BCPs to international entry and exit points in August 2013, according to a Myanmar–Thailand bilateral agreement. Pending agreement with neighboring countries, Golden Triangle (Lao PDR), Tamu (India), and Dawei are not yet official international entry and exit points.

¹⁷ Apart from the Thai BCPs, traffic data exist for some but not all BCPs. Interpretation is often complicated because there is no breakdown of long-distance and local traffic.

Table 2 continued

Other Principal Border Special Economic Zones in Greater Mekong Subregion Economic Corridors

Corridor	Border Special Economic Zones	
North–South Economic Corridor	Chiang Kong (Thailand)	Houaysai (Lao PDR)
North–South Economic Corridor	Tachileik (Myanmar)	Mae Sai (Thailand)
Southern Economic Corridor	Thadeua (Lao PDR)	Nong Khai (Thailand)
Southern Economic Corridor	Dong Kralor (Cambodia)	Khong Phapeng (Lao PDR)
None	Vang Tao (Lao PDR)	Chong Mek (Thailand)
None	Pak Nhai (Cambodia)	Pleiku (Viet Nam)

Other Special Economic Zones in Cambodia, the Lao PDR, and Myanmar in Greater Mekong Subregion Corridors, Not at Borders (as of 2014)

Corridor	Special Economic Zones
North–South Economic Corridor	Vientiane Industrial and Trade Area (Lao PDR)
	Saysetha Development Zone, Vientiane (Lao PDR)
	Thatluang Lake Specific Economic Zone, Vientiane (Lao PDR)
	Longthanh–Vientiane Specific Economic Zone (Lao PDR)
	Dongposy Specific Economic Zone (Lao PDR)
	Thakhek Specific Economic Zone (Lao PDR)
	Phoukhyo Specific Economic Zone (Lao PDR)
Southern Economic Corridor	Phnom Penh SEZ (Cambodia)
	Gold Fame Pak Shun SEZ, Phnom Penh (Cambodia)
	Dawei (Myanmar)
	Kampot SEZ (Cambodia)
	Sihanoukville Port SEZ (Cambodia)
	Sihanoukville SEZ 1 (Cambodia)
	Sihanoukville SEZ 2 (Cambodia)

Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China, SEZ = special economic zone.

Source: Asian Development Bank (2014, 7–8).

Map 1: Greater Mekong Subregion Economic Corridors



Note: This map shows the new configuration of the GMS corridors that was endorsed by GMS member countries in December 2016.

Source: Asian Development Bank. 2018. *Review of Configuration of the Greater Mekong Subregion Economic Corridors*. Manila.

Map 2: Existing Border Special Economic Zones, Other Key Border Crossing Points, and Selected Other Special Economic Zones



CBEZ = cross border economic zone, GMS = Greater Mekong Subregion, Lao PDR = Lao People's Democratic Republic, SEZ = special economic zone.

Source: ADB Study Team.

**Table 3: Number of Goods Vehicles Entering and Exiting Thailand
Selected Border Crossing Points, 2010–2015**

Item	2010	2011	2012	2013	2014	2015
Aranyaprathet–Poipet (Cambodia) BCP						
Entering Thailand	4,614	5,704	5,221	4,605	4,624	5,244
Exiting Thailand	39,243	43,267	52,515	51,481	58,069	73,380
Chiang Kong–Houaysai (Lao PDR) BCP						
Entering Thailand	9,580	15,218	19,726	21,516	22,895	29,569
Exiting Thailand	10,259	15,736	20,557	23,706	23,655	34,395
Chong Mek–Vang Tao (Lao PDR) BCP						
Entering Thailand	16,175	15,690	18,787	17,007	14,750	18,771
Exiting Thailand	11,217	300	20,098	38,992	62,383	94,855
Hat Lek–Cham Yeam (Cambodia) BCP						
Entering Thailand	–	5,312	8,415	7,365	12,167	15,761
Exiting Thailand	–	5,494	8,843	7,811	12,454	15,972
Mae Sai–Tachileik (Myanmar) BCP						
Entering Thailand	11,283	11,393	13,810	18,043	18,030	16,243
Exiting Thailand	11,317	11,455	13,817	18,179	18,177	16,267
Mae Sot–Myawaddy (Myanmar) BCP						
Entering Thailand	780	87	1,089	1,061	1,467	1,888
Exiting Thailand	11,217	300	20,098	38,992	62,383	94,855
Mukdahan–Savannakhet (Lao PDR) BCP						
Entering Thailand	27,016	28,465	35,466	37,739	38,112	35,689
Exiting Thailand	27,133	28,837	37,239	38,139	37,844	38,251
Nong Khai–Thadeua (Lao PDR) BCP						
Entering Thailand	24,639	21,958	20,716	18,444	17,534	16,170
Exiting Thailand	78,600	80,984	99,969	113,492	94,311	103,961

– = not available, BCP = border crossing point, Lao PDR = Lao People's Democratic Republic.

Source: Government of Thailand data provided to the Asian Development Bank.

There is overlap between GMS corridors and other initiatives. In 2003, Cambodia, the Lao PDR, Myanmar, and Thailand established the Ayeyarwady–Chao Phraya–Mekong Economic Cooperation Strategy (ACMECS) to promote cross-border production bases. ACMECS prioritized four production bases on the Thailand–Myanmar border, the Lao PDR–Thailand border, and Economic the Cambodia–Thailand border, and at Chiang Rai. Rimmer and Dick (2010) placed corridors connecting major GMS cities within a wider Southeast Asian context (Map 3). GMS corridors also overlap with the Asian Highway (AH) network, and the section of AH1 from Mae Sot (Tak) through Myanmar to the Indian BCP at Moreh has potential to be the

major land link between Southeast Asia and South Asia.¹⁸ Such overlap suggests the existence of natural corridors, and complements the traffic data evidence that border zone economic activity will be greater at some BCPs than others, with or without SEZs. Simple comparisons of border zones with and without SEZs are not sufficient to identify the value added of SEZ status.

The most active of Thailand's border zones is at Mae Sot in Tak Province, which has been a center for labor-intensive and agro-processing industries since the 1990s and has good road links to Bangkok. The labor supply comprises migrant day-workers from Myanmar and nearby refugee camps in Myanmar. Before 2003, cross-border trade was mostly unregulated, and little investment occurred on the Myanmar side of the border due to restrictive policies and lack of secure government control. In 2008, the Government of Myanmar established a border trade zone in Myawaddy, with storage facilities and land for factory and warehouse construction, and, in 2009, the Government of Thailand approved a special zone at Mae Sot. Following 2011–2012 reforms in Myanmar, the two governments collaborated in promoting Myawaddy–Mae Sot as a zone to support cross-border trade. Since 2013, when the daily minimum wage in Mae Sot was increased to B300, some labor-intensive activities have relocated to the Myanmar side of the border, while higher-value operations remain in Mae Sot. Section III examines the situation at Mae Sot based on an April 2016 survey of 100 firms active in the SEZ.

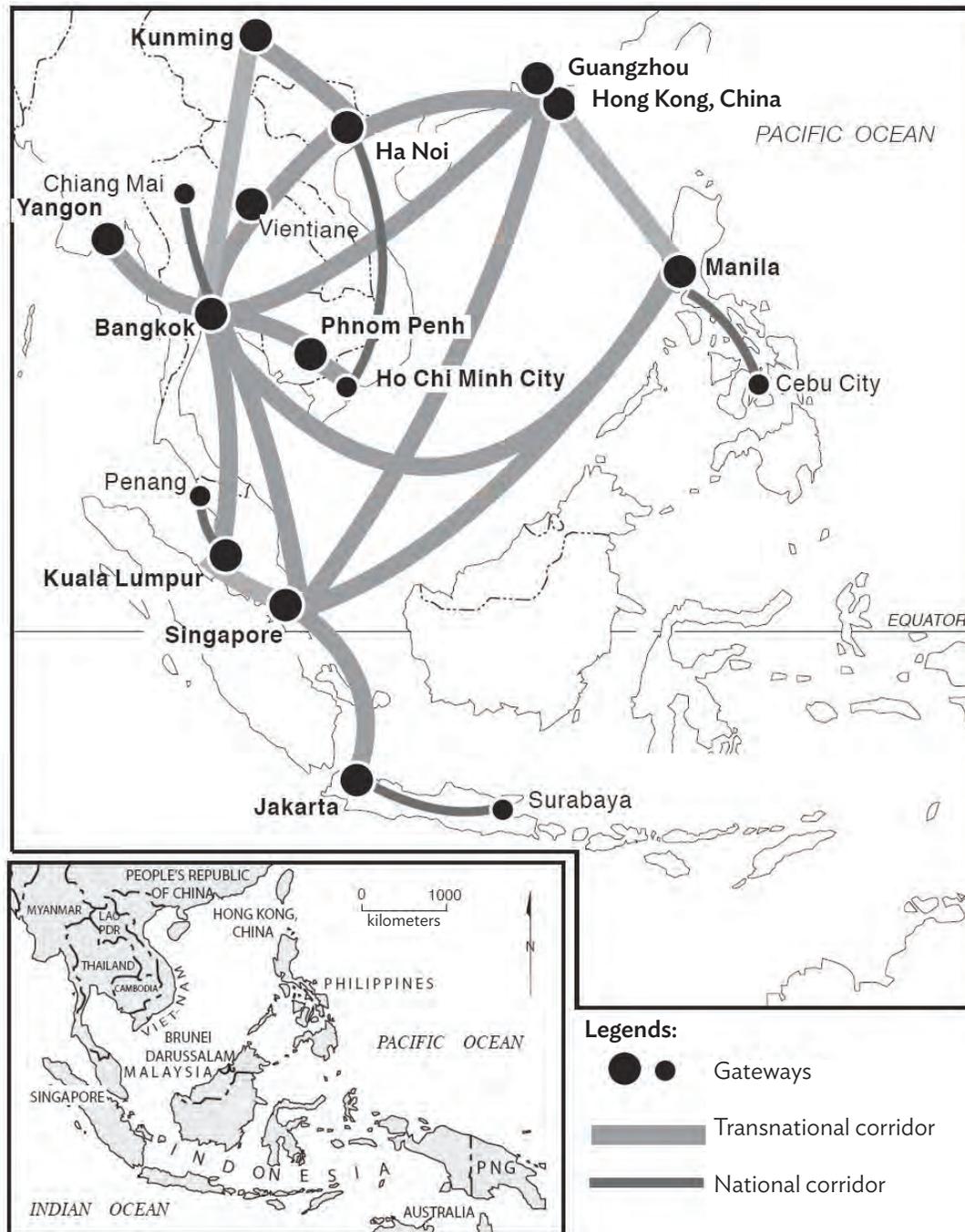
Further along the GMS East–West Economic Corridor, the Lao PDR Savan–Seno SEZ was established near the Thai border in 2002–2003. The SEZ made little progress until the Second Thai–Lao Friendship Bridge opened in 2007, connecting Savannakhet in the Lao PDR with Mukdahan in Thailand. A 305 ha sector, devoted to services activities and known as Paradise City, flourished immediately on the basis of a hotel and casino complex catering primarily to customers from Thailand, where casinos are banned. Paradise City has been associated with social and health problems, and Lord (2012) implied that the health, crime, and environmental issues associated with the casino were not helpful in attracting industrial investment to the SEZ. By contrast, ADB predicted in 2010 that the Savan Industrial and Commercial Park would create 5,000 jobs by 2015 and, when fully operational, would have over 15,000 workers (Lord 2012, 7). Progress since 2008, when the park was taken over to be privately managed by a foreign investor, is assessed in section IV.A.

The Lao Bao and Dansavanh zones on the Viet Nam–Lao PDR border on the East–West Economic Corridor are physically much larger than Savan–Seno, but the Lao PDR SEZ at Dansavanh has been less active. Dansavanh, established in 2002, is 19 km long and stretches for 1 km on either side of the road; 529 ha have been allocated for commercial centers and 1,220 ha for industrial production. Lao Bao is even larger at 15,804 ha, and 57 Vietnamese and 2 Thai companies were operating there in 2015.

On the Thailand–Cambodia border, Poipet saw a rapid increase in trade after 1998. A large part consists of Thai visitors to the casinos, although, since 2004, the Chhay Chhay Investment Group has developed the Poipet O'Neang SEZ to produce garments, and artificial flowers, and engage in food processing, and other labor-intensive manufacturing activities. In 2014, both the governments of Thailand and Cambodian proposed additional border SEZs at Poipet–Aranyaprathet and Koh Kong BCPs. The Poipet–Aranyaprathet border crossing in the Southern Economic Corridor, which is the main road connecting Ho Chi Minh City and Phnom Penh to

¹⁸ AH1 runs from Tokyo to Istanbul, where it is renamed E80 and continues to Lisbon. Some parts of Myanmar AH1 section are in good condition while some like Eindu to Kawkareik are being upgraded through an ADB Loan. Meanwhile, the Monywa to Tamu (Moreh) still needs to be improved.

Map 3: Gateways and Multimodal Corridors in Southeast Asia



Lao PDR = Lao People's Democratic Republic, PNG = Papua New Guinea.

Source: Rimmer and Dick (2010, 8).

Bangkok, appears to have better prospects than the Koh Kong border crossing on the less heavily traveled Southern Coastal Corridor.

The PRC has two SEZs in the Eastern Economic Corridor (Hekou and Pingxiang), as well as one in the Northern Economic Corridor (Riuli) and one in the North–South Economic Corridor at the Lao PDR border (Mohan). Viet Nam is actively working on its counterparts (Lao Cai and Dong Dang) to the PRC SEZs in the Eastern Economic Corridor. Hekou (Yunnan Province) and Lao Cai are twin towns on opposite banks of the Red River on the Kunming–Ha Noi road, while Pingxiang (Guangxi Zhuang Autonomous Region) and Lang Son (Dong Dang) are on the Nanning–Ha Noi road, but far apart. The PRC is introducing two more SEZs in Guangxi Zhuang Autonomous Region—Dongxing and Longbang—which will have Vietnamese counterparts at Mong Cai and Tra Linh.¹⁹ The aim of the three SEZs in Guangxi Zhuang Autonomous Region is to stimulate development in remote regions. At some Vietnamese border SEZs, e.g., Moc Bai on the border with Cambodia, economic activity is reported to be insignificant (ADB 2014, 10).²⁰ These mixed experiences even among two of the most active and more developed GMS economies highlight the need for on-the-ground observation of what is happening. The remainder of this report draws on firm surveys and field studies.

F. Evaluating Special Economic Zones

A further reason for a careful evaluation of what is happening now is the changing nature of the global and regional economies. The export-oriented processing SEZs of the 20th century have been superseded by more complex SEZs whose occupants often seek to link into GVCs, but it is unclear whether this model is also approaching its use-by date. Farole and Akinci (2011) argue that past success was in an era of unprecedented globalization and a shift toward spatial fragmentation along GVCs, and that this transformation is more or less complete, especially in East Asia where “Factory Asia” has been the cutting edge of fragmentation of production, and it is not clear that past experience is a good guide to the future.

Within Southeast Asia, December 2015 signaled the formal completion of the ASEAN Economic Community. Although economic change will be gradual rather than overnight, the five GMS countries that are ASEAN members are part of what is becoming an ever more closely integrated region where national borders are losing economic significance. This suggests that Factory Southeast Asia, perhaps in conjunction with adjoining regions of the PRC, may still have plenty of scope for further production fragmentation and growth.

¹⁹ In October 2013, the PRC and Viet Nam signed a memorandum of understanding on the establishment of cross-border SEZs. ADB provided technical support for the development of the Hekou–Lao Cai and Pingxiang–Lang Son border SEZs. Vietnamese SEZs near the Laotian and Cambodian borders do not appear to have any similar underpinning.

²⁰ However, Cambodian authorities report that the Bavet–Moc Bai BCP on the Southern Economic Corridor is one of their most active BCPs. This information and the traffic data reported in the previous paragraph are from ADB reports under Project (Support for Regional Multisectoral Investment Framework for Greater Mekong Subregion Development).

III. CASE STUDY: MAE SOT (TAK)

This section draws on a business survey conducted at Tak SEZ in Thailand to analyze the driving factors of SEZ performance.²¹ The survey, conducted in April 2016 in Mae Sot on the border with Myanmar, included 100 firms. The firms were overwhelmingly (98%) domestically owned.

All 100 firms responded to a question about the overall business environment in the SEZ, with generally positive assessments (Table 4). Responding on a 1–5 scale, over three-quarters of the firms described electricity, water, internet, and waste disposal infrastructure as *average* or better, and, in each category, about half the firms responded with *good* or *very good*. The firms were slightly less positive on the quality of service with respect to electricity and water, with a larger number responding *average* rather than *good* or *very good*, but still less than a quarter of firms described service as *poor* or *very poor*. A similar, but slightly more guarded, picture emerges with respect to safety and security and consistency of government policies; in each case, opinions were divided, with about a third saying *better than average*, a third *average*, and a third *poorer than average*.

Firms in the SEZ overwhelmingly used their own money or domestic banks to mobilize capital and upgrade technology (Table 5). About two-thirds of the firms reported that 90% or more of their inputs and output markets were domestic (Table 6). Response rates to questions about imported inputs and export markets were low, but only 14 firms reported imports as accounting for over half their inputs and only 21 reported that exports accounted for more than half their sales. In sum, the overall picture is overwhelmingly one of Thai firms locating in Tak SEZ with domestic capital to access low-cost labor, and with few exceptions producing for the domestic market.

²¹ Tak Province's Office of Commercial Affairs conducted the survey of 100 randomly selected firms in Mae Sot, based on the office's list of firms. Students were sent to complete the questionnaires at each firm. Most of the firms had been operating around Mae Sot for years, although this does not necessarily imply they are entitled to Board of Investment tax incentives and benefits; they are only eligible for such benefits if they put up new capital and apply to the Board of Investment. Some firms in Mae Sot may be outside the SEZ, although around three-quarters specifically reported that they manufacture in the SEZ and others are service providers in the SEZ.

Table 4: Overall Assessment of the Business Environment in Tak Special Economic Zone

	Very Good	Good	Average	Poor	Very Poor
Quality of infrastructure					
Reliability of electricity	8	44	30	12	6
Water supply	9	46	21	15	9
Internet connectivity	12	34	30	21	3
Waste disposal	7	39	30	16	8
Quality of public goods and services					
Electrical connection	7	40	29	19	5
Water connection	7	33	36	13	11
Safety and security	5	29	34	20	12
Consistency of government policies	5	29	36	24	6

Source: Government of Thailand data provided to the Asian Development Bank.

Table 5: Financing Options of Firms in Tak Special Economic Zone

	Mobilizing Capital	Upgrading Technology
Own source	48	46
Onshore bank loans	47	44
Supplier credit	4	7
Foreign Direct Investment	1	1
Others	0	1

Source: Government of Thailand data provided to the Asian Development Bank.

Table 6: Backward and Forward Linkages of Firms in Tak Special Economic Zone

%	Source of Inputs		Destination of Output	
	Domestic	Imports	Domestic	Export
10 or less	3	4	3	5
20	3	8	2	3
30	2	5	2	2
40	0	0	1	1
50	1	1	3	3
60	0	0	1	1
70	5	2	2	2
80	8	3	3	2
90	2	2	4	2
95-99	2	1	1	1
100	63	6	61	13
No. responding	89	32	83	35

Source: Government of Thailand data provided to the Asian Development Bank.

The 100 firms in the survey employed a total of 10,940 workers, of whom they categorized 602 as non-production workers (managers, administration, sales) and 10,334 as low-skilled or semiskilled production workers (Table 7). The non-production workers are mostly domestic (480 out of 602), but over three-quarters of the production workers are foreign (8,046 out of 10,334). About two-fifths of the firms employ only domestic production workers and two-fifths employ only or overwhelmingly (over 90%) foreign production workers. This, however, hides a major difference in size distribution, with only four of the former group employing over 100 workers compared with 22 of the latter group; and the three very large enterprises (employing 1,300, 1,136, and 800 production workers) all reported that these workers were 100% foreign.²² In sum, while large numbers of the surveyed firms rely on domestic workers, these are overwhelmingly small enterprises, typically with fewer than 10 workers, while the large firms rely on foreign workers, presumably from Myanmar.

Table 7: Employment by Firms in Tak Special Economic Zone

	Production Workers		Non-Production Workers
	Low Skilled	Semiskilled	
Domestic	488	1,786	480
Foreign	3,927	4,119	122

Source: Government of Thailand data provided to the Asian Development Bank.

The minimum wage of B300 per day (\$8.40) appears to be binding in the SEZ, insofar as almost all responding firms report labor costs of \$257 per month for low-skilled production workers. Only two reported paying less (\$128 and \$240) and three reported paying more (\$271 and two at \$285). However, 47 firms declined to answer questions about labor costs. Forty firms claimed to have formal training programs for local employees, while 60 did not. Eighteen firms had linkages with local universities or technical and vocational education and training institutions, all but three of which were firms that also had training programs. When asked about their biggest labor problem, 38 firms said high turnover, 30 said high cost, and 26 said low skills.

Overwhelmingly, and unsurprisingly given the location, the firms' transport inputs and outputs by road and the main logistic difficulties are high costs and uncertain delivery times. Few of the surveyed firms were aware of cross-border programs, beyond occasional mention of ASEAN or "Myanmar plans to open up the market." Only eight firms were aware of the existence of an SEZ management team, and not all of these had ever met with the SEZ administration. When asked about infrastructure, almost all firms said that electricity, telecommunication, water, and waste disposal are important, although their rating of the quality of infrastructure and public services within the SEZ was generally lukewarm, ranging from *good* to *poor*, but rarely assessed *very good* or *very poor*.

The overall impression from the survey in Tak Province is that Thai-owned firms were locating at Mae Sot to produce labor-intensive goods for sale within Thailand. Although many firms used domestic labor, the largest firms were overwhelmingly employing foreign labor, presumably from Myanmar, and some four-fifths of production workers employed by the surveyed firms

²² Note, however, that the three very large employers have little similarity, insofar as the first produces 100% for export and the other two 100% for the domestic market.

were foreign. Although some firms reported vocational training and other measures to upgrade their workers' skills, this does not appear to have been a high priority across the surveyed firms. Infrastructure is important to investors in Mae Sot, but the existence of the SEZ seems not to have been significant in attracting investment. The SEZ may be providing better infrastructure and other conditions without firms knowing why infrastructure has improved, but on the surface, the survey suggests that SEZ status has had little to do with the attractiveness of Tak Province for investors.

IV. EFFECTIVENESS OF SPECIAL ECONOMIC ZONES

The Tak survey highlighted gains from production collaboration near borders, insofar as the principal driving force behind Thai firms locating at Mae Sot is the opportunity to combine their production and marketing experience with unskilled labor from Myanmar.

The literature review in section I showed that there are many varieties of SEZs, and this section discusses the effectiveness of other border SEZs based on a variety of empirical evidence. Section IV.A examines case studies of zones in Savannakhet Province of the Lao PDR, for which information is available from previous studies and site visits by ADB staff. Section IV.B reports results from a client survey conducted by research staff of ANZ Bank among firms in SEZs in Cambodia, the Lao PDR, and Myanmar.

A. Savannakhet, Lao People's Democratic Republic

Savannakhet²³ is the second city of the Lao PDR, 6–7 hours by car from Vientiane. It is connected by the Second Thai–Lao Friendship Bridge to Mukdahan in Thailand, and from there it is 720 km to Bangkok port. Despite being on a designated GMS corridor, traffic is not heavy, perhaps because a better BCP for Bangkok–Ha Noi traffic is Nakhon Phanom/Thakhek, and for Bangkok–Ho Chi Minh City there is a better option at Trat. Nevertheless, the Government of the Lao PDR sees Savannakhet City as a future crossroads; the Seno part of the SEZ's name is an acronym of the French words for the four compass points (*sud, est, nord, ouest*).

The Second Thai–Lao Friendship Bridge opened to the public in early 2007, finalizing the part of the GMS East–West Economic Corridor in the Lao PDR, and was expected to play a major

²² Savannakhet is the name of the province. The main city's official name is Kaysone Phomvihane, but it is commonly referred to as Savannakhet City. The population of the province is around 900,000 and that of the city, about 120,000. In 2005–2010, the province boomed on the basis of investments in the resource sector, e.g., sugarcane, eucalyptus, and rubber (Nolintha 2011, 189–196).

role in giving the Lao PDR access to seaports in neighboring countries.²⁴ The main expected benefits from the bridge are a reduction in cost and time for cross-border activity, job creation, and a boost to local economies (Stone and Strutt 2009, Menon and Warr 2006). Other benefits include increased freight traffic, more transport operators, and a greater number of tourist (Luanglatbandith 2007). In 2011, 97,000 personal vehicles and 54,000 buses used the bridge, which represented a 560% increase in personal vehicles and 412% increase in bus traffic compared with 2007.

The Savan–Seno SEZ was established by Prime Ministerial Decrees 148 and 177 in 2002–2003, and consists of at least five distinct locations (Table 8). The first activities only began in 2008, with the establishment of the Japan Logitem in Site B and the Savan Vegas hotel and casino in Site A financed by Macau, China (Suzuki and Keola 2008). In 2007, the SEZ entered into an agreement with the Thai Airport Ground Services to develop Site A into a trade and service hub, but, with political turmoil in Thailand, development of Site A experienced delays except for the hotel/casino.

Table 8: Investment Sites in the Savan–Seno Special Economic Zone

Site	Location	Area (ha)	Type of Investments
A	Next to Mekong bridge	305	Trade and services
B	28 km east of city	28	Logistics and transportation
C	10 km east of city	234	Industry and manufacturing
D	8 km east of city	118	Housing for relocation of households from A
B1	25 km east of city	300	For future development

ha = hectare, km = kilometer.

Source: Savan–Seno SEZ Authority, cited in Nolintha (2011, Table 4).

The impact of the second bridge and the SEZ on the tourism industry has been clearly observed. Tourist arrivals increased substantially after the opening of the bridge: the number of tourists in Savannakhet increased from 474,826 in 2008 to 1,120,021 in 2015.²⁵ The supporting tourism industries expanded markedly in Savannakhet, where the number of accommodation establishments (hotels, resorts, guesthouses) increased from 115 in 2009 to 196 in 2015 and the number of rooms rose from 2,302 in 2009 to 4,351 in 2015. The hotel/casino in the SEZ was especially high profile in attracting tourists from Thailand, where casinos are not permitted. In a 2012 ADB report, Lord (2012) expressed concerns that the casino was the principal outcome of the SEZ and had substantial negative externalities, but the people flows and easing of border trade following the opening of the bridge helped to establish the cross-border transport infrastructure that would encourage manufacturing activity within the SEZ.

²⁴ The key sections of the road corridor have been completed, with ADB and Japan helping finance sections in the Lao PDR and Viet Nam, including Route 9, the Hai Van Tunnel, and Da Nang Port. Thailand is helping finance connections between Thailand and Myanmar at the Myawaddy–Mae Sot border by upgrading the existing section of the East–West Economic Corridor road in Kayin State, while ADB will be financing the section from Eindu to Kawkareik in Myanmar (Mekong Tourism, n.d.).

²⁵ About Tourism Performance. Mekong Tourism. <http://www.mekongtourism.org/about/tourism-performance/>.

In 2008, the SEZ signed an agreement with Pacifica Streams Development from Malaysia to develop Site C into a commercial and industrial hub with the official name of Savan Park Special Economic Zone; the investment is through the joint-venture company Savan Pacifica Development, with 70% of equity belonging to the Malaysian developer. Savan Park's development is being spread over facilities and across four phases, with each phase covering about 50 ha and taking about 7 years.

Since 2008, the SEZ has invested in infrastructure development, including land clearance and development, water treatment, and the electricity network and substation. Investors in Savan Park enjoy various incentives that are guaranteed by Decree 177, including lower taxes, longer land leases, and fixed land concession fees.²⁶ The decree also set out a one-stop service for licensing and registration; labor recruitment; and access to public utilities, visas, work permits, and other legal issues without the need to visit ministerial departments. A decision on investment applications is guaranteed within 5 working days. It is noteworthy that Savan Park proactively addressed issues such as labor and water shortages, two of the biggest concerns of potential investors in SEZs.²⁷

By July 2010, 16 investors from 10 countries had been granted investment licenses in Savan Park, and 35 out of 153 industrial lots had been sold to investors; one investor from Japan had already completed construction of its factory and was installing machinery, and five other investors had started factory construction. Aerial photos from November 2012 show the completed facilities of KP-Nissei (an original equipment manufacturer for Nikon), the Kolao motorcycle assembly plant, and the Daehan truck assembly plant.

In 2016, the roll call of companies with physical investments was much longer. Some offer support services, such as the telecom companies (Lao Telecom, Beeline, Unitel, and ETL) and Savan Logistics Trucking. Construction-related companies supply within-SEZ services, but also include exporters: Hongkham Concrete Engineering, TCR Concrete, Savan Innovative Precast, C&T Modular, Urai Paints, and Denzo International (Thai Toa) coatings. Many facilities are clearly export activities, and most likely part of GVCs: Toyota Boshoku car seat covers, Celestia electronics, CviLux electronics, Kitani Electric, Misuzu threads and wire, Aeroworks parts for aircraft cabin interiors, and KP Beau plastic toys and cosmetics. Others are harder to categorize, e.g., Lao Tin Foundry and Refining, Essilor Lao, and JP Investments.

From the perspective of 2016, the Savan–Seno SEZ appears to have been a success in bringing investors to the Lao PDR. Besides the commitment of the government,²⁸ Savan Park's progress since 2008 can be attributed to the professionalism of the Malaysian developer, which has used

²⁶ Investors enjoy a tax holiday on profits for 2–10 years followed by a profit tax of 8%–10% depending on the business category, and personal income tax of 5%, with no restrictions on repatriation of after-tax profits or income. All inputs used in production for export, including construction materials and office supplies, are exempt from customs duties and VAT, and no export taxes are levied. Outside the SEZ, profit and income tax rates range up to 24% depending on location and type of business, while VAT is 10% and import duties vary from 3% to 40%. Foreign investors can lease land in the SEZ for up to 75 years at preferential rental rates and with a right to sublet.

²⁷ With respect to labor supply, the SEZ management company developed a labor force database to allow unemployed workers to register their details and, since 2011, it has trained laborers to prepare them for industrial employment. The company attracted a Malaysian investor to join with the state-owned water supplier in developing water distribution specifically for the SEZ utility.

²⁸ In 2014–2015, the Government of the Lao PDR publicized ambitious plans for the SEZ and, in 2015, it released computer-generated images of Savan eCo City, a future business epicenter of Southeast Asia, Asia's next offshore financial center, and a future center for recreation and medical tourism. <https://www.youtube.com/watch?v=5hIKSFSIaBM>.

a number of initiatives to accelerate the site's development, been active in attracting prospective investors, and invested in marketing. However, as emphasized at many points in this report, caution is required before ascribing causality to the SEZ because the opening of the bridge in 2007, by itself, would have provided a stimulus to the trade of Savannakhet Province and may have improved its attractiveness to foreign investors.

Border trade has long flourished in Savannakhet Province, through which the GMS East–West Economic Corridor runs from Thailand to the Viet Nam border, and trading activities by small and regular traders are significant to the lives of people in the border villages.²⁹ The Lao PDR–Thailand border trade involves consumption goods, from clothing and plasticware to food items such as vegetables, garlic, fruit, noodles, and cookies. Before the completion of the bridge, many traders carried food by boat via the Mekong River to both Vientiane and Savannakhet, and, since 2007, traders have been carrying goods across the new bridge using both public buses and personal cars. Similarly, goods are brought from Viet Nam to Savannakhet; traders normally use pushcarts to transport their goods from the Lao Bao local market in Viet Nam to Dansavanh market in the Lao PDR. Khonethapane, Insisienmay, and Nolintha (2006) argue that a formal setup (e.g., establishment of a border trade zone) does not guarantee the success of border trade, which requires a range of support and incentives from flexible local authorities.

Support for the last point can be found in the contrast between the Savan–Seno and Dansavanh SEZs. Progress of the Dansavanh SEZ has been sluggish compared with Savan–Seno, and also compared with the border trade zone on the Vietnamese side of the border. Dansavanh SEZ has suffered from lack of financing for the necessary infrastructure for water supply, high-voltage electricity, and land clearance; an insufficient institutional framework; inadequate government officials for the management of the zone; and a large area of land covered by unexploded ordnance. However, some of these obstacles are being addressed, such as construction of the water supply and high-voltage electricity transmission from Viet Nam (Nolintha 2011), so it may be a matter of development taking time rather than assessing the Dansavanh SEZ as a failure.

B. ANZ Bank Client Survey

Using a similar questionnaire to that used in Tak Province of Thailand (section III), ANZ Bank, which operates in Thailand, Viet Nam, Cambodia, the Lao PDR, and Myanmar, surveyed its clients' experiences with SEZs along GMS corridors. Response rates in these surveys are far lower than the 100 producers in Mae Sot reported in section III, but responses by ANZ clients in the other countries reveal some interesting patterns.³⁰ The ANZ research team's summary of high-level findings, reproduced in Box 1, is useful because it captures the ANZ's interpretations of the client experience.

²⁹ Khonethapane, Insisienmay, and Nolintha (2006) cited evidence from a household survey in Savannakhet and Bokeo provinces that, even before 2007, border trade provided a source of income for people living near the border area, who enjoyed better living conditions and accumulated wealth faster than people who lived away from the border. Other observed benefits included promotion of entrepreneurship; encouragement of business-oriented production; support of progress in social development, especially access to health care and education; and opportunities for transfers of know-how.

³⁰ The differing numbers of respondents reflected the duration of ANZ presence in the five countries. ANZ has operated in Bangkok since 1986 and in Viet Nam since 1993, but only began operations in Cambodia in 2005, in the Lao PDR in 2007, and in Myanmar in 2013. The two Myanmar firms surveyed (a United States steel and aluminum manufacturer and a Vietnamese steel firm) had both relocated capacity from Viet Nam to produce for the Myanmar market and were based in the Thilawa SEZ on the outskirts of Yangon, i.e., neither is in a border SEZ.

The two respondents from the Lao PDR (Toyota Boshoku Lao, maker of car seat covers, and Celestica electronics producer) both indicated that they would not have invested in the Lao PDR if there had been no SEZ. The key attraction factors were the good logistics, i.e., road and sea linkages along the East–West Economic Corridor, low and stable utility costs, competitive labor costs, tax holidays, and export and import tax exemption. In sum, they were positive about their experience in Savan–Seno, based on factors identified in section IV.A.

In contrast, the five respondents from Cambodia were less enthusiastic. The firms were all foreign owned, two supplying the domestic market and three exporting—the location of the latter near the Viet Nam border suggests they were linking into already established GVCs in Viet Nam. All five said they would not have invested in Cambodia in the absence of SEZs, but none seemed entirely happy with the outcome, citing problems with logistics and SEZ management. In particular, the investors identified infrastructure (water and waste disposal, telecommunication, and electricity supply) as ranging from *average* to *poor*.

The Vietnamese client survey covered the largest number of firms. The 20 firms were all foreign owned, and 16 firms reported that they were part of GVCs, although over half the respondents indicated that Viet Nam was their primary market. The apparent paradox is explained by relatively high dependence on imported inputs. Among the factors that attracted the firms to industrial zones, tax incentives, efficiency of customs clearance, and consistency of government policies were considered the most important. The surveyed firms generally expressed satisfaction with the zones' infrastructure and provision of public services; over three-quarters rated the infrastructure *good* or *very good* (apart from internet connectivity, on which positive responses were just over 50%), and similar numbers assessed public service provision as *good* or *very good*. Without information about which industrial zones were covered, it is difficult to link the Viet Nam client survey to SEZs and border development. However, the Viet Nam results echo a recurring theme that an important role for special zones is to provide good infrastructure and reliable public services.

The high-level findings reported by the survey team and reproduced in Box 1 sound a positive overall note. The team concludes that SEZs are succeeding in attracting investment and production into the Mekong economies that would not have occurred in the absence of an SEZ, and that SEZs appear to be enabling structural changes to occur relatively quickly through a combination of both “linkages” and demonstration effects. Infrastructure—electricity, water, telecommunication, and waste disposal—was the crucial input expected in an SEZ. In particular, they highlight surety and consistency of electricity supply and consistency of flow; avoidance of surges is particularly important because capital equipment is expensive and susceptible to destruction, write-off, or uneconomic repair costs if damaged by power surges. In most of the Mekong economies, the SEZs are seen as providing significant insulation from the uncertain environment outside the SEZ.

Box 1: Summary of High-Level Findings from the ANZ Client Survey

A number of key thematic threads could be seen woven through the fabric of the Mekong special economic zones (SEZ). In particular, we note the following:

1. SEZs are succeeding in attracting investment and production into the Mekong economies that would have otherwise NOT occurred in the absence of an SEZ.
2. SEZs appear to be enabling structural changes to occur relatively quickly through a combination of both “linkages” and demonstration effects. In particular, we note:
 - (i) a “Thailand + 1 model” in terms of technology transfer and physical capital deepening; and
 - (ii) a “Viet Nam + 1 model” in terms of skills transfer and “train the trainer” programs.
3. Skills transfer is a readily apparent dynamic occurring across all Mekong economies with Viet Nam as the clear origin of skills transfer.
4. “Train the trainer” programs are working as both incentives for talented workers, aiding the retention of skilled staff, and also serving as a further medium for skills transfer.
5. The skills tipping point to higher salaries is relatively—and surprisingly—low, being dictated by just two factors. The two basic skills at which salaries start to inflect upward are a basic knowledge of English and a basic knowledge of manufacturing/production line processes.
6. Viet Nam appears to be cascading up value chains faster than expected. As a result, positive externalities are being created for Cambodia, the Lao People’s Democratic Republic, and Myanmar, with Viet Nam creating the economic space for their first steps into basic manufacturing.
7. Still a “skills gap” is most often highlighted as a key frustration with most clients reporting that they devote an unproductive amount of time to micromanaging staff.
8. This “skills gap” appears to follow a “barbell” shape with the management skill set and practice of the SEZ often seen as falling short of expectations.
9. Most clients do not have, or were not prepared to share, their exit strategies, or at what point the negative externalities identified from operating in the SEZ were likely to prompt an exit.
10. This suggested that considerable “sunk costs” were involved in the decision to move into an SEZ, very long-term plans were in place, and that companies choosing to enter frontier markets were fully aware of the myriad of risks, and that they were in for the “long haul.”
11. Myanmar was the only frontier economy where production was seen as viable in an autonomous sense to service a domestic market.
12. Indeed, most estimates and forecasts of the size at which a sustainable consumer market would emerge in Myanmar are particularly optimistic.
13. Not surprisingly, electricity, water, telecommunication, and waste disposal were the crucial inputs or basic service-level agreement that was expected in conducting business in an SEZ.
14. There were two elements to electricity as one of the key pull factors for SEZs:
 - (i) surety and consistency of supply, and
 - (ii) consistency of flow.
15. In particular, the avoidance of surges was seen as particularly important. Capital equipment was extremely expensive and susceptible to destruction, write-off, or uneconomic repair costs if damaged by power surges.
16. For the majority of Mekong economies, the SEZs were seen as providing significant insulation from the uncertain environment outside the SEZ. Where this was not the case, confidence in the management of the SEZ became the paramount consideration.
17. Overall, Mekong SEZs are succeeding in attracting foreign direct investment into their respective economies that would NOT have occurred in the absence of the presence of an SEZ.

Source: ANZ Client Survey, 2016.

V. HARNESSING SPECIAL ECONOMIC ZONES FOR BORDER DEVELOPMENT

The global literature on SEZs, past experience in GMS countries, and the new evidence presented in sections III and IV of this report all point to the potential of SEZs as growth nodes and incubators of good practice. The empirical evidence also shows that there is great variance in SEZs' performance, and that it can be difficult to isolate the value-added of SEZs (i.e., to compare their impact with what would have happened in their absence). Border SEZs can have added impact by improving integration along international supply chains, although maximization of such benefits requires collaboration of authorities on both sides of the border. Finally, the difficulty of determining how to assess an SEZ's positive and negative impacts needs to be stressed; successful SEZs evolve over many years, their outcomes change with the evolution, and the ultimate measure of success will often be that the SEZ ceases to be special, as its good practices become standard practice across the country.

The PRC, Thailand, and Viet Nam have had long and generally successful experiences with SEZs, although (with the important exceptions of Shenzhen and Zhuhai in the PRC) these have not been border SEZs. These histories illustrate that management of successful SEZs can be public—as in the PRC—or private—as in Thailand and Viet Nam (Table 1). Crucial to success is that the SEZs should be well managed, provide good infrastructure and public services, and reduce red tape. Tax and other financial incentives can help to attract producers to SEZs, but are not sufficient conditions for success. These general conclusions are reinforced by the client survey of Viet Nam in section IV.B.

The SEZ experience of Cambodia, the Lao PDR, and Myanmar is more recent. The Lao PDR evidence (reported in section IV.A) reinforces the fact that successful SEZs take time to evolve, but with good infrastructure and public services, well-managed SEZs can attract firms to locate links in GVCs. Savan Park followed the example of Thailand's privately managed industrial zones, but required 3–4 years of preparation before the first firms were producing there, and another 3–4 years before it could be considered to be operating successfully. The critical path involved creating hard infrastructure, i.e., the bridge to Thailand, and identifying a firm to manage Savan Park, after which the firm had to put infrastructure in place before investors started to build production facilities; and, even after that, there is an ongoing process of upgrading and maintaining infrastructure.

The Savan–Seno SEZ in the Lao PDR benefited from several advantages. The founding decrees provide the privileges and incentives specifically for the firms in SEZs, and there is no need for investors to go through a centralized approval process to enjoy these privileges (in contrast with Thailand’s Board of Investment and Cambodia’s procedure). Low electricity costs make the Lao PDR attractive for manufacturing industries, which consume a large amount of electricity. Products made in the Lao PDR (and in Cambodia) benefit from lower import tariffs under Generalized System of Preferences schemes in the United States, European Union, and other high-income countries, although such preferential treatment is importer-determined and can be withdrawn, unlike World Trade Organization members’ bound most-favored-nation tariffs. On the negative side, a lack of backward linkages to local suppliers means that firms in Savan Park source most parts and components from other countries. Thus, similar to the situation in Cambodia, the principal Lao PDR SEZ is, by and large, an export-processing zone with limited technology transfer, skill upgrading, and local industry development. However, it is still too early to determine whether the Lao PDR SEZs can move beyond simple export processing.

Border SEZs can provide additional benefits. Borders imply economic discontinuities. Coordination across border SEZs can help integration into GVCs, especially when wages or other input costs or characteristics differ substantially either side of the border. Such coordination is facilitated by good hard infrastructure (e.g., bridges when the border is a river) and soft infrastructure (e.g., simple border-crossing procedures). Experience with border SEZs along GMS corridors is recent, and few cases have existed long enough to draw strong conclusions. The de facto long-time border zone at Mae Sot illustrates that the operation of a border SEZ is likely to evolve both gradually and, at times, rapidly; for example, in response to unexpected national policy changes. The experience of Savan–Seno highlights how long it can take to place a border SEZ on a firm footing, as legislation, infrastructure investment, and good SEZ management are all needed.

Mae Sot is a classic example as, over several decades, Thai and other entrepreneurs in the garment industry and other labor-intensive activities have accessed day labor from Myanmar to reduce their wage bills. In 2016, these enterprises were overwhelmingly Thai firms using domestic inputs and sources of finance to produce goods for the Thai market, mostly using labor from Myanmar (section III). This situation may already be transitional, as some entrepreneurs have relocated to Myawaddy on the Myanmar side of the border—a process likely to accelerate as the ease of doing business in Myanmar improves.

The activity at Mae Sot and Aranyaprathet BCP indicates that border trade often flourishes without the establishment of any kind of special zone, and a key question in evaluating, say, the Tak and Sa Kaeo SEZs is: what difference can special zone status make? A March 2016 ADB field visit to these two SEZs led to the following conclusions:

Sa Kaeo and Mae Sot SEZs ... have not been effective in enhancing competitiveness of the border areas in terms of attracting more investment from both local and foreign sources and job creation. With or without SEZs, cross-border activities at the Ban Khlong Luek Aranyaprathet and Mae Sot–Myawaddy borders are substantial and pivot around relatively labor-intensive industries such as agriculture and food processing, garments, tourism, and logistics. Sa Kaeo and Mae Sot have competitive advantage in these industries thanks to their large pool of labor from Cambodia and Myanmar across the borders, proximity to sources of materials, connectivity with super-clusters in Laem Chabang seaport and Ayutthaya, and tourist attractions.

The ADB team went on to observe that public authorities and the private sector in the areas both regard the SEZs as good policy marred by poor implementation. This is similar to the findings by Khonethapane, Insisienmay, and Nolintha (2006), who, on the basis of household surveys in Savannakhet and Bokeo Provinces of the Lao PDR, conclude that a formal setup does not guarantee the success of border trade, which needs a full range of support and incentives from flexible local authorities. The survey of 100 Mae Sot firms corroborates the view that SEZ status may add little (section III), although it may be that the SEZ provided the infrastructure that firms say they value even though the firms are unaware of the SEZ–infrastructure link.

The Savan–Seno SEZ provides contrasting lessons. Construction of the bridge across the Mekong made border trade easier, and, in the short run, led to a burst of tourism in Savannakhet, largely associated with the casino complex at the initial stage. In the short term, observers such as Lord (2012) emphasized the negative externalities associated with this kind of activity. However, in the long term, the bridge was an important precondition for the successful establishment of manufacturing activity within the SEZ, although the time lags were substantial. Public policy can facilitate SEZs' success, especially by creating infrastructure up to the SEZ and perhaps by reducing red tape, but there is little evidence from Mae Sot, Savan–Seno, or other SEZs studied that tax and other financial incentives make a significant difference.

As with all SEZs, border SEZs should aim to become eventually more than processing zones and less special. A generic obstacle to this transition is that border regions often do not have infrastructure such as

- (i) educational institutions that can help skill upgrading once wages begin to increase and the location loses its comparative advantage in unskilled labor-intensive activities; and
- (ii) financial institutions to provide credit to firms in the SEZs, especially local small and medium-sized enterprises.

This is part of the general problem of integrating the SEZ success into wider national or GMS regional economic development. The role of government is to provide transport and communication infrastructure, but this can be wasted if not accompanied by improved soft infrastructure (including ease of doing business and crossing borders). The state should also promote local educational, financial, and social development, which is often lacking in border regions.

Another issue facing border SEZs along GMS corridors is the lack of coordination, for example, between the post-2015 Thailand border SEZs and SEZs on the other side of the border. Even worse, Thailand's SEZs have sometimes triggered a sense of competition for border development with the neighboring areas. Without collaboration and dialogue with the neighboring country governments, the SEZs may not be able to embrace full advantages in the border areas—indeed, noncooperative border SEZs undermine the whole corridor concept.

Finally, a more general conclusion is that, even though SEZs are often associated with reduced red tape and regulation, the rule of law remains an important element of good practice.

VI. CONCLUSION AND POLICY RECOMMENDATIONS

What role can SEZs play in strengthening the competitiveness of production along GMS corridors? The previous section drew conclusions that included several criteria for SEZ success. SEZs can be incubators for reform in distorted economies; within the GMS, this is especially applicable to Cambodia, the Lao PDR, and Myanmar. Border SEZs can promote development in border regions by attracting investment and creating employment; this is an added benefit from SEZs in Cambodia, the Lao PDR, and Myanmar, and central to Thailand’s post-2015 border SEZ strategy and the PRC’s approach to SEZs in Guangxi Zhuang Autonomous Region.³¹ Moreover, in a world in which GVCs have increasing salience, border SEZs can create nodes in GVCs, e.g., Mae Sot combining low-cost labor from Myanmar with Thai intermediaries. This also depends on good infrastructure links to other regions and ports.

SEZs must be “special”: what special features have driven the success stories? Financial incentives may attract influential first-movers, but decisions to invest in SEZs are rarely based on financial incentives alone; international evidence suggests that such incentives are not the key to SEZ success, and may attract weaker firms or simply be wasted. Successful SEZs have levels of infrastructure and governance (or absence of overintrusive governance) that distinguish them from other parts of the country. With success, they can provide an example of what the rest of the country could achieve, encouraging more effective provision of public services and infrastructure and helping proponents of economic reform to overcome vested interests.

³¹ A question raised by SEZs in Cambodia, the Lao PDR, and Myanmar that take advantage of restrictions on gambling and other illicit activities in Thailand and the PRC is whether the type of employment matters. Casinos create jobs and stimulate cross-border trade; is this a springboard, or is it a dead end due to negative externalities? The Savannakhet example suggests a springboard function, but adverse publicity surrounding the Golden Triangle SEZ could have negative consequences for the Lao PDR, for example, if opposition to trading in parts of protected species generates calls to boycott exports from the Lao PDR (as has happened to Uzbekistan in the wake of publicity about use of child labor in cotton harvesting).

Policy Recommendations

Promote SEZs as incubators of good practice, supported by good infrastructure.

- (iii) The government can use a private firm to develop and manage the SEZ, but the state must be an active player in improving transport, electricity, water, telecommunication, waste disposal, and other infrastructure to link the SEZ to the global economy. In Cambodia, the Lao PDR, Thailand, and Viet Nam, most SEZs are run by private firms and this has been successful, but in the PRC, SEZs are predominantly state run—and this seems to be the preference in Myanmar, which prefers public partners, such as Japanese development cooperation agencies, in joint-venture SEZs. The evidence in this report is that investors in SEZs especially value the provision of good infrastructure and reliable services (electricity, water, waste management, logistics, information technology, etc.), irrespective of who provides it.
- (iv) Successful SEZs draw on local advantages (e.g., low-wage or semiskilled labor) to become globally competitive:

Global or regional competitiveness is what counts: being better than the host domestic economy is unlikely to be sufficient for viable SEZs over the long term. Investors, particularly foreign investors, have a wide range of choices (Abonyi, Zola, and Suwannakarn 2014, 19).

In the longer term, development within SEZs requires similar policies to successful national development. Many SEZs are export-processing zones and may not be able to embrace backward linkages with local suppliers; policy needs to be put in place to improve domestic capacity and entrepreneurship of local firms, but not to obstruct imported inputs when domestic supplies are less suitable. The government must ensure that infrastructure is upgraded and maintained (as in recommendation [i]) and the costs of doing business and crossing borders are minimized, but it must also play an active role in upgrading skills and human capital. Some of this occurs within the firms through learning-by-doing and firm-provided vocational training, but that must be accompanied by availability and improvement of formal education in the region, and options to attend more specialized educational institutions elsewhere.

- (v) Border SEZs can be especially useful in combining different sources of comparative advantage that may be present on the two sides of the border, but have been stymied by the existence of the border. To take advantage of such complementarities, border crossing must be simplified and the costs of international trade across borders minimized. In most border SEZs in GMS corridors, emphasis has been put on development of border areas and less on developing intra-country connectivity. Feeder roads that link border SEZs and other parts of the countries are poor, especially in Cambodia, the Lao PDR, and Myanmar so effectively the corridor is from the SEZ to the nearest port, rather than the SEZ contributing to development of the national economy or the entire corridor. Cross-border collaboration could be improved in most cases.

Priorities

- (i) **Public–private nexus.** Many well-functioning SEZs are run and planned by private sector firms, but the government still plays a key role in providing legal and infrastructure arrangements.
- (ii) **Within-country coordination.** Successful SEZs bring in all stakeholders—the private sector, nongovernment organizations, developers, and government agencies—at all stages of development.
- (iii) **Strengthening backward linkages.** Many SEZs are export-processing zones, with limited backward linkages to local suppliers. Policy needs to improve domestic capacity so that local firms can take part in regional supply chains. Education and training can support flexibility and upgrading within GVCs.
- (iv) **Intercountry coordination.** Too often with border SEZs, there are no coordinated actions between the two countries. Policy coordination is needed to maximize benefits on both sides of the border.

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* ADB recognizes "Laos" as the Lao People's Democratic Republic.

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The Role of Special Economic Zones in Improving Effectiveness of Greater Mekong Subregion Economic Corridors

This study looks into the role of special economic zones in strengthening the competitiveness of economic corridors in the Greater Mekong Subregion (GMS). It examines factors behind the success of special economic zones and the role they can play in GMS economic corridor development. The analysis is based on a company-level survey in the Mae Sot special economic zone and interviews with clients operating in other zones throughout the GMS. The report offers policy recommendations for GMS ministers on how the zones can contribute toward improving competitiveness of economic corridors and thereby promote economic development.

About the Greater Mekong Subregion Economic Cooperation Program

The Greater Mekong Subregion (GMS) is made up of Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. In 1992, with assistance from the Asian Development Bank (ADB) and building on their shared histories and cultures, the six countries of the GMS launched a program of subregional economic cooperation—the GMS Program—to enhance their economic relations, initially covering the nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation.

About the Asian Development Bank

ADB is committed to achieving a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. Established in 1966, it is owned by 67 members—48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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